

October 25, 2007

*Michael C. Schlachter, CFA  
Managing Director & Principal*

Dr. Russell Read  
Chief Investment Officer  
California Public Employees' Retirement System  
400 Q Street  
Sacramento, CA 95814

Re: U.S. Equity Relaxed Long-Only Manager Spring Fed Pool Recommendation

Dear Russell,

You requested Wilshire's opinion with respect to Staff's recommendation of candidates for the U.S. Relaxed Long-Only mandate to be included in CalPERS' Spring-Fed Pool. Wilshire concurs with Staff's recommendation.

### **Background**

The Investment Committee approved a Request for Proposal (RFP) for U.S. Relaxed Long-Only managers in February 2006. The RFP included a provision for establishing a Spring-Fed Pool of approved managers for potential funding at a later date. In December 2006, the Investment Committee approved an initial group of five managers to make up the pool. To date, three of these managers have been funded.

During July 2007, Staff undertook an effort to expand the spring-fed pool feature and issued a U.S. Relaxed Long-Only RFP to add a greater diversity of firms to the pool of managers. Proposals were sent to seven managers identified by Wilshire Associates and Staff, of which six qualifying proposals were read and scored by staff according to the criteria laid out in the RFP.<sup>1</sup>

Staff is recommending the following managers for addition to the Spring-Fed Pool:

Acadian Asset Management  
AXA Rosenberg Investment Management  
JP Morgan Asset Management

### **Discussion**

Wilshire independently reviewed and evaluated the six qualifying candidates who responded to the RFP. Our process has consisted of several steps:

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<sup>1</sup> Wilshire's Disclosure of Conflicts of Interest in regard to the managers who responded to the RFP is attached to this agenda item as an appendix.

- Wilshire reviewed questionnaires or copies of CalPERS' RFPs from all managers.
- A qualitative assessment of a firm's organizational and ownership structure, quality and caliber of professional staff, depth of resources, pending litigation, compliance, and culture.
- A qualitative assessment of a firm's investment process that addresses the sources of information the firm uses to start its investment process, its uniqueness and processing; its ability to use that information or research to forecast the expected results of its individual investments; the process by which portfolios are constructed, including risk management and alpha generating considerations; the firm's ability to implement, including its resources dedicated to trading; and performance attribution: how the firm reviews its results and utilizes the attribution as a feedback mechanism to address performance and risk issues early on, and to communicate results to clients.

Wilshire also participated in Staff's interviews of the candidates that took place in CalPERS' office in Sacramento on October 22-23. These interviews allowed Staff and Wilshire to ask questions and receive clarification on how each manager structures and implements a relaxed long-only portfolio.

### **Findings and Recommendations**

Wilshire has determined that each of the candidates that Staff is recommending for the pool of candidates are solidly of institutional quality, and are highly evaluated by Wilshire. Further, Wilshire also reviewed the proposed "fit" of each candidate against Staff's stated objectives for this search, namely to identify manager products that can further CalPERS' goal of consistent out-performance within a well-managed risk framework. The managers Staff is recommending offer products that are consistent with these objectives, and compliment those Relaxed Long-Only managers who have been funded and those already selected for the spring-fed pool. The differentiated approaches should provide a diversified basket of investment processes with the potential to add incremental return over the established benchmarks in varying market environments.

Wilshire recommends that the Investment Committee approve the list of managers Staff is requesting to be included in the Spring-Fed Pool of Relaxed Long-Only Equity managers.

Should you require anything further or have any questions, please do not hesitate to contact us.

Sincerely,

